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9

10 **UNITED STATES DISTRICT COURT**
11 **CENTRAL DISTRICT OF CALIFORNIA**
12 **SOUTHERN DIVISION**

13 Social Sampling, Inc. and Mass
Connections, Inc.,

14 Plaintiffs,

15 v.

16 CROSSMARK, Inc.; Shopper Events, LLC.,
17 and Does 1-5, Inclusive,

18 Defendant.
19

Case No. SACV12-01576 CJC (ANx)
Hon. Cormac J. Carney

**OPPOSITION TO DEFENDANTS'
MOTION FOR LEAVE TO FILE
SECOND AMENDED ANSWER**

Hearing Date: September, 30, 2013
Time: 1:30 P.M.
Courtroom: 9B

1 **I. Introduction**

2 Less than two months before discovery is set to close in this matter, Defendants
 3 move to amend yet again their affirmative defenses and counterclaims. These
 4 amendments include (1) adding additional allegation regarding their declaratory judgment
 5 counterclaim of patent non-infringement (2) adding a new declaratory judgment
 6 counterclaim of patent non-infringement, and (3) adding declaratory judgment
 7 counterclaim and breach of contract counterclaim based on a theory of so-called “circular
 8 indemnity.” And while Plaintiffs do not oppose Defendants’ amendments directed to the
 9 issues of patent infringement and patent validity, Defendants’ amendments directed to the
 10 issue of “circular indemnity” are futile and should not be permitted.

11 Defendants’ circular indemnity theory is part of a poorly-considered effort to divert
 12 attention from Defendants’ own wrongdoing, including stealing Mass Connections’
 13 valuable intellectual property concerning how Mass Connections implements its patented
 14 systems and methods for conducting in-store demonstrations. As detailed in Mass
 15 Connections’ complaint, Defendants’ gained possession of this information through the
 16 guise of negotiating a partnership with Mass Connections; all the while knowing that it
 17 had no intention of delivering on this promised partnership. Defendants then used Mass
 18 Connections’ own intellectual property to form a directly competing business, violating
 19 the ‘191 and ‘305 patents and the parties’ explicit non-disclosure obligations.

20 In a bid to escape liability for its wrongdoing, Defendants now make an 11th-hour
 21 claim that a 2009 agreement between Shopper Events and Mass Connections can be
 22 contorted to grant Defendants the unfettered right to steal Mass Connections’ intellectual
 23 property. Defendants are wrong.

24 **First**, the portion of the 2009 agreement relied on by Defendants – like all
 25 indemnity clauses – covers only claims asserted by *third parties*; not claims asserted by
 26 the indemnitor itself.

27 **Second**, the language of the clause says nothing about excusing infringement of the
 28 Mass Connection patents. Instead, the agreement explicitly covers only a claim alleging

1 “infringement by the EMC's patents ... on the rights of any third party.” This clause
 2 cannot be construed as a back-door license for Defendants to engage in unfettered
 3 violation of Mass Connections’ patent rights.

4 For at least the foregoing reasons, this Court should deny Defendants leave to add
 5 its Sixth Affirmative Defense and its Third and Fourth Counterclaims.

6 **II. The Court should deny leave to amend because Defendants can prove no set of**
 7 **facts supporting their circular indemnity theory.**

8 The Ninth Circuit has long held that a Court may deny leave to amend under Rule
 9 15(a) where the amendment would be futile, or where the amended complaint would still
 10 be subject to dismissal. *See Saul v. United States*, 928 F.2d 829, 843 (9th Cir.1991).
 11 Futility of amendment under this rule is shown where plaintiff can prove “no set of facts”
 12 pursuant to the amended pleading which would entitle him to relief. *Miller v. Rykoff-*
 13 *Sexton, Inc.*, 845 F.2d 209, 214 (9th Cir.1988). Defendants’ proposed amendment –
 14 which purports to raise a defense of so-called “circular indemnity” – is just such a claim.

15 **A. Because they are futile, the Court should reject Defendants’ affirmative**
 16 **defenses and counterclaims based on the theory of “circular indemnity.”**

17 Defendants’ proposed amendment is based on a 2009 agreement between Mass
 18 Connections and Shopper Events related to Mass Connections’ use of Shopper Events’
 19 services to perform Mass Connections’ patented in-store demonstrations. That agreement
 20 includes the following indemnity clause:

21 EMC [Mass Connections] shall defend, indemnify and hold the Provider
 22 Parties [Shopper Events] harmless from and against any Loss to the extent
 23 caused by: (i) products, point of sale materials and/or other product related
 24 materials and/or goods used or provided by EMC or its client in connection
 25 with this Agreement, including but not limited to. any defect in merchandise,
 26 or the purpose or use of any product manufactured, produced, demonstrated,
 27 or distributed by EMC, (ii) materials or equipment sourced, or research
 28 supplied, by EMC and incorporated or used in connection with material or

1 equipment prepared by Provider at EMC's direction; (iii) the negligence or
 2 willful misconduct of EMC and its employees, agents and other
 3 representatives or any parties acting under EMC's control and supervision,
 4 including, without limitation, such actions in connection with the use of the
 5 Demo Equipment and (iv) *the infringement of any of EMC's patents*,
 6 copyrights, or trademarks, or other proprietary rights held or used by client, *on*
 7 *the rights of any third party*.

8 Exhibit B to Df.'s Second Am. Answer, Section 8(b) (emphasis added).

9 It is the last clause that is important. And that last clause only applies in the very
 10 narrow circumstances where a third party alleges that an EMC patent, copyright,
 11 trademark infringes on its own rights. For example, one such claim might be a third-party
 12 claim for false advertising or false marking based on the Mass Connections' patents, i.e., a
 13 claim that a Mass Connections patent was falsely marked and/or services were falsely
 14 advertised as being "patented."

15 But faced now with the prospect of a massive damages award for its violation of the
 16 asserted patents, Defendants argue that the above language can be interpreted as a "free
 17 pass" to allow it to continue to violate these patents. Defendants' argument borders on the
 18 absurd. As a threshold matter, circular indemnity is not only rarely applied (and
 19 apparently almost never in California), the handful of cases where it is applied are limited
 20 to situations where a plaintiff must indemnify a third-party who must in-turn indemnify
 21 the defendant from the injured plaintiff. *See e.g. RFR Indus., Inc. v. Rex-Hide Indus., Inc.*,
 22 222 F. App'x 973, 978 (Fed. Cir. 2007)(applying Texas law); *Starcraft Co., A Div. of*
 23 *Bangor Punta Operations, Inc. v. C.J. Heck Co. of Texas, Inc.*, 748 F.2d 982, 989 (5th Cir.
 24 1984); *Moore v. Sw. Elec. Power Co.*, 737 F.2d 496, 501 (5th Cir. 1984); *In re*
 25 *Guardianship of Lane*, 994 So. 2d 757, 760 (Miss. 2008).

26 In other words, whether it is "circular indemnity" or just run-of-the-mill indemnity,
 27 an indemnity obligation – by definition - ***requires*** the existence of an injured third party.
 28 *See, e.g., Smoketree-Lake Murray, Ltd. v. Mills Concrete Constr. Co.*, 234 Cal. App. 3d

1 1724, 1735, 286 Cal. Rptr. 435, 440 (Ct. App. 1991) (“Indemnity, involve[es] an
 2 obligation to an injured *third party* (*emphasis added*),” and “is distinct from an
 3 exculpatory clause or ‘exemption’ from liability obtained from the injured party.”) Here,
 4 there is no injured third party that would trigger Mass Connection’s indemnity obligation.

5 Distilled to its essence, Defendants argue that the Court should retroactively rewrite
 6 the language of the 2009 agreement. Rather than indemnifying Shopper Events in the
 7 narrow circumstances where the loss is “caused by ... *the infringement of any [Mass*
 8 *Connections] patents ... on the rights of any third party*,” Defendants argue that the
 9 clause should be rewritten to indemnify Shopper Events from “any claim based on
 10 Shopper Event’s infringement of any Mass Connections patent.” Of course, this is not
 11 what the 2009 agreement states. Indeed, even Defendants proposed rewrite makes no
 12 sense. If the parties intended to provide a free license to practice the Mass Connections
 13 patents, they would have done so by drafting – well – a patent license. Defendants’
 14 argument contravenes the explicit language of the agreement, which applies only to
 15 infringement *by* the Mass Connections patents “*on* the rights of any third party.”

16 In short, Defendants’ proposed amendment is futile on its face.

17 **B. The language in the 2009 agreement further reinforces the futility of**
 18 **Defendants’ affirmative defenses and counterclaims.**

19 Section 7(c) of the 2009 Agreement further reinforces the futility of Defendants’
 20 proposed amendments. This section provides that - upon receiving a third-party claim that
 21 would call for indemnification – Shopper Events must notify Mass Connections of the
 22 existence of the claim and give Mass Connections “a reasonable opportunity to defend
 23 and/or settle the claim at its own expense and with counsel of its own selection.” Exhibit
 24 B to Df.’s Second Am. Answer, Section 7(b). It defies credulity to suggest that the 2009
 25 agreement somehow requires Shopper Events to notify Mass Connections of the existence
 26 of a lawsuit that Mass Connections itself filed, so as to give Mass Connections an
 27 opportunity to engage in settlement discussions with itself to resolve its own lawsuit.
 28

1 Defendants' interpretation of the 2009 agreement is absurd and cannot support its theory
2 of circular indemnity.

3 Because there is no set of facts under which Defendants can prove its Sixth
4 Affirmative Defense and its Third and Fourth Counterclaims, the Court should deny
5 Defendants' requested leave.

6 **III. Conclusion**

7 For at least the foregoing reasons, this Court should deny Defendants leave to add
8 its Sixth Affirmative Defense and its Third and Fourth Counterclaims.

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10 Dated: September 9, 2013

ONE LLP

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12 By: /s/ Nathaniel L. Dilger

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16 Inc.; et al.
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